BEFORE THE PUBLIC SERVICE COMMISSION RECEIVED

OF THE STATE OF DELAWARE 2014 MAR 18 PM 12 41

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR FOR AN INCREASE IN ELECTRIC BASE RATES AND MISCELLANEOUS TARIFF CHANGES (FILED MARCH 22, 2013)	)))))	**PSC DOCKET NO. 13-115**

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EXCEPTIONS OF DELAWARE ENERGY USERS GROUP TO THE FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

The Delaware Energy Users Group ("DEUG"), by counsel, hereby submits these Exceptions to the Findings and Recommendations of the Hearing Examiner issued on March 4, 2014

The scope of these exceptions is limited to the issues addressed by DEUG in its prefiled testimony and at the evidentiary hearing, including specifically the Class Cost of Service Study and Revenue Allocation. The fact that other issues raised by in the Delmarva's application, or other findings and recommendations made by the Hearing Examiner, are not addressed herein is not intended to indicate agreement or acquiescence. Generally, DEUG supports the positions taken by the Commission Staff and the Division of the Public Advocate advocating for reduction of the revenue requirement.

1. The Class Cost of Service Study.

As explained by DEUG witness Nicholas Phillips, Jr., in his prefiled testimony,[1] the Class Cost of Service Study ("CCOSS") conducted by Delmarva and presented in support of its application fails to take into account certain necessary cost causation principles. Although Delmarva's CCOSS comports with generally accepted cost of service study methods, the classification and allocation of certain distribution plant accounts should be modified to classify a portion of those accounts as customer-related, rather than as demand-related or energy-related.[2]

Certain distribution investments that must be made to connect a customer to the system are unrelated to that customer's demand level or energy usage and should properly be considered as customer-related. Mr. Phillip's analysis shows that Delmarva's CCOSS fails to reflect a reasonable customer component in the classification and allocation of certain distribution plant costs, resulting in proposed rates for the General Service Primary ("GSP") customer class, in particular, that are inflated and that would produce revenues substantially above the cost of service. For this reason, Mr. Phillips has prepared and submitted a revised CCOSS that takes into account actual cost causation and that should be used to allocate any distribution revenue increase in this case, as well as in the design of distribution rates.[3]

Delmarva criticized Mr. Phillips analysis because he uses data from a Minimum Distribution System ("MDS") study that Delmarva was required to file in Maryland, and because such MDS analysis has not been previously used by the Delaware Commission,[4] and the Hearing Examiner agreed with Delmarva.[5] The problem with such criticism of Mr. Phillips' analysis is that is that it fails to recognize that he is simply proposing a reasonable correction of a clear error in Delmarva's analysis. Mr. Phillips criticism of Delmarva's CCOSS should not be completely disregarded simply because he was, necessarily and practically, unable to perform a new and fully blown CCOSS from scratch. But Mr. Philips does not argue that the costs associated with

[1] Exh. 16, Phillips Direct.
[2] Id., p. 6.
[3] Id., Attachment NP-4. For purposes of comparison, in preparing his revised CCOSS, Mr. Phillips used Delmarva's requested revenue numbers. This should not be interpreted as an endorsement of those numbers for purposes of determining the dollar amount of the rate change to be authorized in this proceeding. Id., p. 2.
[4] Delmarva Opening Brief, pp. 106-07.
[5] Findings and Recommendations, pp. 132-33.

certain distribution plant accounts[6] should be classified as entirely customer-related. He is only arguing that they should not be classified as entirely demand-related. Such allocation of a portion of those cost as customer-related is only consistent with general ratemaking policy objectives, such as customer equity, conservation and revenue stability.[7] Delmarva's CCOSS completely disregards the obvious fact that the costs of constructing, maintaining and repairing a widespread distribution network to serve numerous residential customers is necessarily greater than the costs of providing distribution service to a relative handful of industrial customers. As Mr. Phillips explained, "[w]hile data requirements and certain aspects of developing a customer component may be criticized, using no customer component is clearly wrong and produces erroneous results."[8] Mr. Phillips recommends only a "conservative implementation" of a customer component that is fair and reasonable.

2. Revenue Allocation

The revenue allocation issue raised by DEUG relates to the rate Delmarva proposes to charge to the General Service Transmission ("GST") class of customers. Delmarva's rate design for the GST class fails to take into account the fact that those customers were offered a credit for power factor improvement that reduces costs and benefits the entire system. By failing to take that credit into account, Delmarva has significantly inflated the revenue burden imposed on the GST class. To correct for this, Mr. Phillips proposes that the percentage increase in GST rates granted by the Commission in this proceeding should be no more than one-half the system average percentage increase.[9]

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[6] Accounts 364 (Poles, Towers and Fixtures); 365 (Overhead Conductors and Devices); 366 (Underground Conduit); and 367 (Underground Conductors and Devices). See Exh. I6, p. 10.
[7] Id., at 18.
[8] Id., at 20.
[9] Id., at 3.

The GST class is a unique class of seven customers served at transmission voltage. The GST rate provides a credit to GST customers that increase their power factor above 90%. As Mr. Phillips explained, "[a]n increase in power factor is desirable and reflects a benefit to the system and generally lowers overall cost to the system."[10] The problem with Delmarva's revenue allocation in this case is that it allocates the cost of that credit back to the very customers who were offered the credit – which means that in effect there is no credit at all. The customer who was provided a supposed credit, and consequently took action at its own expense in response to a price signal designed to benefit the system, will see its rates go up in order to cover that credit. And the impact on these customers is a substantial one, raising the rate of return of the GST class from what would be a negative 4.23% to a positive 28%.[11]

The Hearing Examiner, however, rejected Mr. Phillips' proposal because he found that "there is no record evidence of reduced costs due to the power factor credit."[12] This recommendation again fails to implement what would be a reasonable correction of an obvious error. The record evidence is clear that Delmarva offered the GST customers a credit and now Delmarva wants to collect the cost of that credit back from those same customers, making the credit wholly illusory. Allowing Delmarva to perform such sleight-of-hand in allocating revenue is necessarily unfair and unreasonable.

Because the GST class receives service at transmission level, the only cost of distribution service it receives is the cost of metering and billing it. Mr. Phillips recommendation that any increase in the GST rate should be limited to no more than one half the system average percentage increase is more than fair.

[10] Id., at 21.
[11] Id., at 21-22.
[12] Findings and Recommendations, p. 134.

Respectfully submitted,

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Dated: March 14, 2014

#1558144

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CERTIFICATE OF SERVICE

I hereby certify that on March 17, 2014 I will cause the accompanying **Exceptions of Delaware Energy Users Group to the Findings and Recommendations of the Hearing Examiner dated March 4, 2014** to be served by electronic mail upon all parties on the attached service list.

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